

Message Text

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SUBJ: PETROLEUM: NATIONAL PETROCHEMICAL COMPANY (NPC)

LIQUEFIED PETROLEUM GAS DOWN-STREAM OPERATION FOUNDERS

REF: TEHRAN A-65 (ANNUAL PETROLEUM REPORT) MAY 10, 1978, P.16

1. ENGLISH LANGUAGE KAYHAN OF JUNE 6 REPORTS, AND OUR PETROLEUM SOURCES CONFIRM, THAT THE GOI'S NATIONAL PETROCHEMICAL COMPANY EFFORTS TO SELL LIQUEFIED PETROLEUM GAS (LPG) ABROAD HAVE SUFFERED A MAJOR SETBACK. IN 1975 NPC FORMED A JOINT VENTURE WITH THE FRENCH FIRM GAZ OCEAN TO OWN AND OPERATE LPG TANKERS. A MODERN LPG TANKER, THE RAZI, WAS BUILT IN FRANCE AT A COST OF ABOUT 40 MILLION DOLLARS (70,000 CUBIC METERS CAPACITY), AND DELIVERED TO THE LPG JOINT VENTURE TRANSPORT COMPANY (CALLED IRAN-OCEAN) IN LATE 1977. THE DELIVERY OF THE RAZI TO IRAN WAS GREETED WITH GREAT ENTHUSIASM BY THE GOI WHICH SAW IRAN-OCEAN AS MAKING A MAJOR CONTRIBUTION TO IRAN'S DESIRE TO BROADEN AND DIVERSIFY ITS DOWN-STREAM OPERATIONS.

2. NPC AND IRAN-OCEAN HAVE NOW COME TO THE RELUCTANT CONCLUSION

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TO MOTHBALL THE 40 MILLION DOLLAR LPG CARRIER FOR LACK OF ANY LPG TO TRANSPORT. THE RAZI MADE A SINGLE VOYAGE TO ARGENTINA IN EARLY 1978 WITH A CARGO OF SAUDI AND KUWAITIN LPG. SHORTLY THEREAFTER, IT WAS RELAIIZED THAT THE WHOLE OF IRAN'S LPG OUTPUT (ABOUT 35,000 BBLS. PER DAY) WOULD CONTINUE TO BE TAKEN BY THE CONSORTIUM PURSUANT TO THE 1973 SALES AND PURCHASE AGREEMENT AND THAT LPG RECOVERED FROM NATURAL GAS FEEDSTOCK TO THE IRAN-

JAPAN PETROCHEMICAL COMPANY (IIPC) LOCATED IN BANDAR MAHSHAHR WOULD NOT BE AVAILABLE UNTIL THE END OF 1979. EVIDENTLY CONSTRUCTION OF THE RAZI BEGAN WELL BEFORE DELAYS IN THE CONSTRUCTION OF IIPC BEGAN TO BECOME APPARENT.

3. CONSORTIUM OFFICIALS HERE CONFIRM THAT THERE WILL BE NO BUSINESS FOR THE RAZI FOR AT LEAST 18 MONTHS. IRAN-OCEAN MADE REPEATED EFFORTS TO PERSUADE THE CONSORTIUM TO USE THE RAZI BUT TO NO AVAIL. THE CONSORTIUM TOOK THE PERFECTLY UNDERSTANDABLE POSITION THAT TANKERS OWNED BY ITS MEMBER COMPANIES (EXXON, BRITISH PETROLEUM, ET AL) WERE THEMSELVES UNDERUTILIZED AND THAT IT MADE NO SENSE FOR THE COMPANIES TO USE IRAN'S SOLE LPG CARRIER AT A TIME OF A WORLDWIDE GLUT IN TANKER CAPACITY.

4. THE EMBASSY UNDERSTANDS THAT NPC'S EFFORTS TO SELL THE RAZI AND LIQUIDATE IRAN-OCEAN ALTOGETHER HAD TO BE SHELVED FOR LACK OF ANY BIDS TO BUY THE CARRIER. DOUBTLESS EFFORTS TO UNLOAD THE RAZI WILL CONTINUE BUT THE OUTLOOK IN THIS REGARD IS BLEAK AND CERTAINLY A SALE AT A PRICE ANYWHERE NEAR WHAT IRAN PAID FOR THE CARRIER SEEMS TO BE OUT OF THE QUESTION FOR THE FORESEEABLE FUTURE.

5. THE FRENCH EMBASSY HERE CONFIRMS THAT THE FRENCH BANKS WHICH FINANCED THE CONSTRUCTION OF THE RAZI WILL PROBABLY AGREE TO A MORATORIUM ON THE DEBT REPAYMENT.

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6. IT CANNOT BE A HAPPY PROSPECT, TO PUT IT MILDLY, FOR NPC TO CONTEMPLATE THE SHELIVING OF A 40 MILLION DOLLAR ASSET PLUS MOTHBALLING COSTS OF AT LEAST 2 MILLION DOLLARS A YEAR. NPC IS ALREADY FACED WITH MAJOR BUDGETARY PROBLEMS IN PUTTING TOGETHER ITS GRANDIOSE PETROCHEMICAL JOINT VENTURE PROPOSALS AND THE PROBLEM OF WHAT TO DO WITH THE RAZI FURTHER COMPLICATES THE FINANCES OF ONE OF IRAN'S MAJOR STATE-OWNED CORPORATIONS.
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